

SURREY TOWNSHIP
Clare County, Michigan
Annual Financial Statements
and
Auditors' Report
June 30, 2008

Table of Contents

<u>Section</u>		<u>Page</u>
1	List of Elected and Appointed Officials	1–1
2	Independent Auditors’ Report	2–1
3	Basic Financial Statements	
	Government-wide Financial Statements	
	Statement of Net Assets	3–1
	Statement of Activities	3–2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	3–3
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	3–4
	Statement of Revenues, Expenditures and Changes in Fund Balances	3–5
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	3–6
	Notes to Financial Statements	3–7
4	Required Supplemental Information	
	Budgetary Comparison Schedule – General Fund	4–1
	Budgetary Comparison Schedule – Library Fund	4–2
	Budgetary Comparison Schedule – Fire Fund	4–3
	Budgetary Comparison Schedule – Rubbish Collection Fund	4–4
5	Other Supplemental Information	
	Combining Balance Sheet – Nonmajor Governmental Funds	5–1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	5–2

SURREY TOWNSHIP
List of Elected and Appointed Officials
June 30, 2008

TOWNSHIP BOARD

RUSSELL HAMILTON	SUPERVISOR
GLENN BRADBURY	CLERK
ESTHER PITCHFORD	TREASURER
NANCY JONES	TRUSTEE
CAROL DIXON	TRUSTEE



6018 Eastman Avenue
Midland, MI 48640
Phone (989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

Independent Auditors' Report

To the Members of the Township Board
Surrey Township
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Surrey Township as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Surrey Township as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Surrey Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Township has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Yeo & Yeo, P.C.

Midland, Michigan

September 25, 2008

Township of Surrey
Statement of Net Assets
June 30, 2008

Assets

Cash and cash equivalents	\$ 976,916
Due from other governmental units	31,726
Road assessment liens receivable	71,097
Capital assets not being depreciated	74,870
Capital assets - net of accumulated depreciation	<u>1,133,252</u>
Total assets	<u>2,287,861</u>

Liabilities

Current liabilities	
Accounts payable	37,322
Accrued expenses	17,715
Noncurrent liabilities	
Due within one year	71,145
Due in more than one year	<u>42,317</u>
Total liabilities	<u>168,499</u>

Net Assets

Invested in capital assets, net of related debt	1,094,660
Restricted for:	
Debt service	40,821
Unrestricted	<u>983,881</u>
Total net assets	<u><u>\$ 2,119,362</u></u>

Township of Surrey
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 218,803	\$ 23,419	\$ -	\$ -	\$ (195,384)
Public safety	22,983	-	-	-	(22,983)
Public works	175,274	47,449	-	-	(127,825)
Library	249,200	61,259	-	10,708	(177,233)
Fire protection	228,780	35,737	-	-	(193,043)
Rubbish collection	114,477	115,299	-	-	822
Culture and recreation	12,224	-	-	-	(12,224)
Interest on long-term debt	1,539	-	-	-	(1,539)
Total governmental activities	<u>\$ 1,023,280</u>	<u>\$ 283,163</u>	<u>\$ -</u>	<u>\$ 10,708</u>	<u>(729,409)</u>
General revenues					
Property taxes, levied for general purposes					492,789
State shared revenue					198,961
Interest and investment earnings					18,474
Miscellaneous					<u>19,677</u>
Total general revenues					<u>729,901</u>
Change in net assets					492
Net assets - beginning					<u>2,124,273</u>
Net assets - ending					<u>\$ 2,124,765</u>

See Accompanying Notes to Financial Statements

Township of Surrey
Balance Sheet
Governmental Funds
June 30, 2008

	General	Library	Fire Protection	Rubbish Collection	Surrey Lake Debt Service	Lake 13 Debt Service	Other Governmental Funds	Governmental Funds
Assets								
Cash and cash equivalents	\$ 268,777	\$ 232,606	\$ 204,808	\$ 148,476	\$ 19,851	\$ 20,970	\$ 81,428	\$ 976,916
Due from other governmental units	29,184	2,542	-	-	-	-	-	31,726
Due from other funds	439	-	-	-	-	-	-	439
Road assessment liens receivable	-	-	-	-	15,411	55,686	-	71,097
Total assets	\$ 298,400	\$ 235,148	\$ 204,808	\$ 148,476	\$ 35,262	\$ 76,656	\$ 81,428	\$ 1,080,178
Liabilities and Fund Balance								
Liabilities								
Accounts payable	\$ 12,453	\$ -	\$ 2,837	\$ 8,211	\$ -	\$ -	\$ 13,821	\$ 37,322
Accrued expenses	10,407	-	7,308	-	-	-	-	17,715
Due to other funds	-	439	-	-	-	-	-	439
Deferred revenue	-	-	-	-	15,411	55,686	-	71,097
Total current liabilities	22,860	439	10,145	8,211	15,411	55,686	13,821	126,573
Fund Balance								
Reserved for debt service	-	-	-	-	19,851	20,970	-	40,821
Unreserved, reported in:								
General fund	275,540	-	-	-	-	-	-	275,540
Special revenue funds	-	240,112	194,663	140,265	-	-	67,607	642,647
Total fund balance	275,540	240,112	194,663	140,265	19,851	20,970	67,607	959,008
Total liabilities and fund balance	\$ 298,400	\$ 240,551	\$ 204,808	\$ 148,476	\$ 35,262	\$ 76,656	\$ 81,428	\$ 1,085,581

See Accompanying Notes to Financial Statements

Township of Surrey
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
June 30, 2008

Total fund balances for governmental funds	\$ 959,008
Total net assets reported for governmental activities in the statement of net assets is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore are not reported in the funds.	71,097
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	74,870
Capital assets - net of accumulated depreciation	1,133,252
Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(113,462)</u>
Net assets of governmental activities	<u><u>\$ 2,124,765</u></u>

Township of Surrey
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General	Library	Fire Protection	Rubbish Collection	Surrey Lake Debt Service	Lake 13 Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 98,518	\$ 181,506	\$ 212,765	\$ -	\$ -	\$ -	\$ -	\$ 492,789
Licenses and permits	2,964	-	-	-	-	-	-	2,964
State revenue sharing	190,538	5,068	-	-	-	-	3,355	198,961
Local contributions	-	10,708	-	-	-	-	-	10,708
County penal fines	-	57,072	-	-	-	-	-	57,072
Special assessments	-	-	-	-	-	-	47,449	47,449
Charges for services	20,455	4,187	35,737	115,299	16,197	20,936	-	212,811
Interest income	10,424	-	1,350	455	30	30	543	12,832
Other revenue	8,733	7,661	3,283	-	-	-	-	19,677
Total revenues	331,632	266,202	253,135	115,754	16,227	20,966	51,347	1,055,263
Expenditures								
Current								
General government	216,558	-	-	-	-	-	-	216,558
Public safety	19,628	-	-	-	-	-	-	19,628
Public works	124,587	-	-	-	-	-	-	124,587
Culture and recreation	12,224	-	-	-	-	-	-	12,224
Library	-	229,121	-	-	-	-	-	229,121
Fire protection	-	-	218,289	-	-	-	-	218,289
Rubbish collection	-	-	-	108,637	-	-	-	108,637
Surrey Lake improvement	-	-	-	-	-	-	16,853	16,853
Lake 13 improvement	-	-	-	-	-	-	27,180	27,180
Bear lake	-	-	-	-	-	-	4,820	4,820
Liquor enforcement	-	-	-	-	-	-	3,355	3,355
Debt service								
Principal redemption	-	-	58,644	-	-	-	-	58,644
Interest	-	-	1,539	-	-	-	-	1,539
Total expenditures	372,997	229,121	278,472	108,637	-	-	52,208	1,041,435
Net change in fund balance	(41,365)	37,081	(25,337)	7,117	16,227	20,966	(861)	13,828
Fund balance - beginning	316,905	203,031	220,000	133,148	3,624	4	68,468	945,180
Fund balance - ending	<u>\$ 275,540</u>	<u>\$ 240,112</u>	<u>\$ 194,663</u>	<u>\$ 140,265</u>	<u>\$ 19,851</u>	<u>\$ 20,970</u>	<u>\$ 67,607</u>	<u>\$ 959,008</u>

See Accompanying Notes to Financial Statements

Township of Surrey
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 13,828
---	-----------

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(93,202)
Capital assets additions	52,713

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Special assessments	(31,491)
---------------------	----------

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments of long-term debt	<u>58,644</u>
------------------------------	---------------

Change in net assets of governmental activities	<u><u>\$ 492</u></u>
--	----------------------

Surrey Township
Notes to Financial Statements
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Surrey Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

Reporting entity

The Township is governed by an elected five-member Board of Trustees. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate component units of the Township. The Township has no component units.

Government-wide financial statements

The Township's basic financial statements include both government-wide (reporting for the Township as a whole) and fund financial statements (reporting the Township's major funds). The government-wide financial statements categorize all nonfiduciary activities as either governmental or business-type. All of the Township's activities are classified as governmental activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government

Surrey Township

Notes to Financial Statements

June 30, 2008

considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The Township reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Library Fund is used to account for Library activities of the Township.
- The Fire Protection Fund is used to account for Fire Protection activities of the Township.
- The Rubbish Collection fund is used to account for Rubbish Collection activity of the Township.
- Lake 13 Road fund is used to account for proceeds from special assessments that are legally restricted for debt service.
- Surrey Lake Road fund is used to account for proceeds from special assessments that are legally restricted for debt service.

Additionally, the Township reports the following:

Surrey Lake Improvement Fund – The Surrey Lake Improvement Fund accounts for proceeds from special assessments that are legally restricted for Surrey Lake Improvement expenditures.

Lake 13 Improvement Fund – The Lake 13 Improvement Fund accounts for proceeds from special assessments that are legally restricted for Lake 13 Improvement expenditures.

Bear Lake Fund - The Bear Lake Fund accounts for proceeds from special assessments that are legally restricted Bear Lake Improvement expenditures.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property tax revenue

Property taxes are attached as an enforceable lien on property as of December 1 and are due without penalty on or before February 28. These tax bills include the Township's own property taxes and taxes billed on behalf of the County and the school district within the Township limits. Real property taxes not collected as of March 1 are turned over to Clare County for collection, which advances the Township 100% of the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

The Township acts as a collection agent for Clare County, the Farwell Area School District and the Clare Gladwin Regional Education Service District's property taxes.

Taxes collected on behalf of the school districts and Clare County are turned over to the districts and the County immediately following collection and are accounted for in designated tax collection funds.

Surrey Township
Notes to Financial Statements
June 30, 2008

The 2007 taxable value of the government totaled \$96,277,632. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>	<u>Authorized Millage Rate Per Township</u>
General operating	0.8963	0.8963
Fire	2.5000	2.5000
Library operating	1.6399	1.6399

Assets, liabilities and net assets or equity

Cash and cash equivalents – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired. Additionally, each fund's equity in the Township's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

Receivables and payable – In general, outstanding balances between funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include buildings and improvements, land improvements, furniture and equipment, and

vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All capital assets are depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	20 to 50 years
Furniture, equipment and vehicles	5 to 15 years

Long-term obligations - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Surrey Township
Notes to Financial Statements
June 30, 2008

Comparative data

Comparative data is not included in the Township's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Township is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

NOTE 3 - DEPOSITS

Interest rate risk – The Township does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit Risk - Michigan Compiled Laws, Section 129.91 authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligation of the United States, or any

agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the Board authorized all of the investments allowable under Michigan law.

Concentration of credit risk – The Township has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$769,090 of the Township's bank balance of \$1,069,090 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Surrey Township
Notes to Financial Statements
June 30, 2008

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Road assessment liens receivable	\$ 55,686	Lake 13 Debt Retirement Fund
Road assessment liens receivable	<u>15,411</u>	Surrey Lake Road Debt Retirement
	<u>\$ 71,097</u>	

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Primary government	
Road assessment liens receivable	<u>\$ 71,097</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 74,870	\$ -	\$ -	\$ 74,870
Capital assets being depreciated				
Land improvements	15,255	9,253	-	24,508
Buildings and improvements	1,166,439	6,600	-	1,173,039
Furniture and equipment	507,349	36,861	-	544,210
Vehicles	<u>707,721</u>	<u>-</u>	<u>(20,000)</u>	<u>687,721</u>
Capital assets being depreciated	<u>2,396,764</u>	<u>52,714</u>	<u>(20,000)</u>	<u>2,429,478</u>
Less accumulated depreciation for				
Land improvements	(1,611)	(1,684)	-	(3,295)
Buildings and improvements	(336,085)	(24,926)	-	(361,011)
Furniture and equipment	(356,527)	(26,930)	-	(383,457)
Vehicles	<u>(528,801)</u>	<u>(39,662)</u>	<u>20,000</u>	<u>(548,463)</u>
Accumulated depreciation	<u>(1,223,024)</u>	<u>(93,202)</u>	<u>20,000</u>	<u>(1,296,226)</u>
Net capital assets being depreciated	<u>1,173,740</u>	<u>(40,488)</u>	<u>-</u>	<u>1,133,252</u>
Governmental activities capital assets, net	<u>\$ 1,248,610</u>	<u>\$ (40,488)</u>	<u>\$ -</u>	<u>\$ 1,208,122</u>

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General government	\$ 11,497
Library	20,079
Fire protection	53,952
Public works	1,834
Rubbish collection	<u>5,840</u>
Total governmental activities	<u>\$ 93,202</u>

Surrey Township
Notes to Financial Statements
June 30, 2008

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Library Fund	General Fund	<u>\$ 439</u>

The outstanding balances between funds result mainly from the time lag between the payments between funds are made.

Surrey Township
Notes to Financial Statements
June 30, 2008

NOTE 7 - LONG-TERM DEBT

The following is a summary of long-term debt entered into on behalf of the Surrey Lakes Special Assessment District, Lake 13 Special Assessment District and the Township's Fire Truck note payable.

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Special assessment obligations									
Surrey Lake Road	\$ 226,000	2009	5.10%	\$10,728 - \$16,785	\$ 32,757	\$ -	\$ -	\$ 32,757	\$ 32,757
Lake 13	239,000	2011	5.00%	\$15,197 - \$21,676	80,705	-	-	80,705	38,388
Installment purchase agreements									
Fire Truck note payable	205,911	2009	4.00%	\$14,561 - \$44,057	58,644	-	58,644	-	-
Total governmental activities					<u>\$ 172,106</u>	<u>\$ -</u>	<u>\$ 58,644</u>	<u>\$ 113,462</u>	<u>\$ 71,145</u>

Future principal and interest requirements for the special assessment bonds to be paid out of the debt retirement fund are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 71,145	\$ 9,661	\$ 80,806
2010	20,644	2,116	22,760
2011	<u>21,673</u>	<u>1,084</u>	<u>22,757</u>
	<u>\$ 113,462</u>	<u>\$ 12,861</u>	<u>\$ 126,323</u>

Surrey Township
Notes to Financial Statements
June 30, 2008

NOTE 8 -RISK MANAGEMENT

The Township purchases commercial insurance to provide workers' compensation insurance, general liability, and property insurance. The Township also purchases commercial health insurance to cover health expenses for certain eligible employees. There were no significant reductions in insurance coverage from the prior year. Settlements from insurance providers have not exceeded insurance coverage for any of the past three years.

NOTE 9 - ZONING AND ENFORCEMENT

The State of Michigan requires local governmental units to restrict any surpluses during a year for zoning administration activities. The surpluses are to be carried over to subsequent years to fund future activity. Surrey Township had no surplus during the year ended June 30, 2008.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The Township participates in a defined contribution retirement plan administered by John Hancock Financial Services. The plan covers all members of the Township Board. The amount of contributions is based upon the length of service and amounts of compensation earned. The contributions amounted to \$9,555 for the year ended June 30, 2008. Payment to the plan represents the only liability of the Township.

NOTE 11 – CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Township of Surrey
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 98,964	\$ 98,964	\$ 98,518	\$ (446)
Licenses and permits	2,760	2,760	2,964	204
State revenue sharing	184,277	184,277	190,538	6,261
Charges for services	11,900	11,900	20,455	8,555
Interest income	8,000	8,000	10,424	2,424
Other revenue	11,940	11,940	8,733	(3,207)
Total revenues and other sources	317,841	317,841	331,632	13,791
Expenditures				
General Government				
Township board	114,766	114,766	85,969	(28,797)
Supervisor	9,494	9,494	9,494	-
Elections	10,400	10,400	2,263	(8,137)
Clerk	30,496	30,496	27,787	(2,709)
Board of review	1,950	1,950	1,145	(805)
Treasurer	26,426	26,426	24,133	(2,293)
Assessor	34,302	34,302	33,145	(1,157)
Township hall	39,950	39,950	32,622	(7,328)
Public Safety	29,000	29,000	19,628	(9,372)
Public Works				
Cemetery	43,890	43,890	25,439	(18,451)
Roads, highways and street lights	102,100	102,100	94,242	(7,858)
Sanitary landfill	6,000	6,000	4,906	(1,094)
Other expenditures				
Recreation	2,000	2,000	1,990	(10)
Planning and zoning	20,102	20,102	10,234	(9,868)
Total expenditures and other uses	470,875	470,875	372,997	(97,878)
Net change in fund balance	(153,034)	(153,034)	(41,365)	111,669
Fund balance - beginning	316,905	316,905	316,905	-
Fund balance - ending	\$ 163,871	\$ 163,871	\$ 275,540	\$ 111,669

Township of Surrey
Required Supplemental Information
Budgetary Comparison Schedule - Library Fund
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Budget
	Original	Final		
Revenues				
Taxes			\$ 181,506	
State revenue			5,068	
Local contributions			10,708	
County penal fines			57,072	
Charges for services			4,187	
Miscellaneous			7,661	
Total revenues and other sources	\$ 222,537	\$ 235,247	266,202	30,955
Expenditures				
Wages and benefits			122,960	
Operating supplies			4,536	
Postage and office supplies			5,320	
Books and periodicals			22,011	
Communications			5,926	
Insurance and bonds			2,992	
Utilities			10,741	
Repairs and maintenance			14,805	
Equipment purchases			27,533	
Membership dues			4,432	
Professional fees			-	
Training and education			5,452	
Miscellaneous			2,413	
Total expenditures and other uses	\$ 235,247	\$ 241,273	229,121	(12,152)
Net change in fund balance	(12,710)	(6,026)	37,081	43,107
Fund balance - beginning	203,031	203,031	203,031	-
Fund balance - ending	\$ 190,321	\$ 197,005	\$ 240,112	\$ 43,107

Township of Surrey
Required Supplemental Information
Budgetary Comparison Schedule - Fire Fund
Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Budget
	Original	Final	Actual	
Revenues	\$ 255,780	\$ 255,780	\$ 253,135	\$ (2,645)
Expenditures	285,780	285,780	278,472	(7,308)
Net change in fund balance	(30,000)	(30,000)	(25,337)	4,663
Fund balance - beginning	220,000	220,000	220,000	-
Fund balance - ending	<u>\$ 190,000</u>	<u>\$ 190,000</u>	<u>\$ 194,663</u>	<u>\$ 4,663</u>

Township of Surrey
Required Supplemental Information
Budgetary Comparison Schedule - Rubbish Collection Fund
Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Budget
	Original	Final	Actual	
Revenues	\$ 115,961	\$ 115,961	\$ 115,754	\$ (207)
Expenditures	115,961	143,925	108,637	(35,288)
Net change in fund balance	-	(27,964)	7,117	35,081
Fund balance - beginning	133,148	133,148	133,148	-
Fund balance - ending	<u>\$ 133,148</u>	<u>\$ 105,184</u>	<u>\$ 140,265</u>	<u>\$ 35,081</u>

Township of Surrey
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Nonmajor Special Revenue Funds</u>		Total
	Surrey Lake Improvement Fund	Lake 13 Improvement Fund	Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	<u>\$ 32,767</u>	<u>\$ 48,661</u>	<u>\$ 81,428</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	<u>\$ 7,061</u>	<u>\$ 6,760</u>	<u>\$ 13,821</u>
Fund Balance			
Unreserved	<u>25,706</u>	<u>41,901</u>	<u>67,607</u>
Total fund balance	<u>25,706</u>	<u>41,901</u>	<u>67,607</u>
Total liabilities and fund balance	<u>\$ 32,767</u>	<u>\$ 48,661</u>	<u>\$ 81,428</u>

Township of Surrey
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2008

	Nonmajor Special Revenue Funds				Total Nonmajor Governmental Funds
	Surrey Lake Improvement Fund	Lake 13 Improvement Fund	Bear Lake	Liquor Law Enforcement Fund	
Revenues					
State revenue	\$ -	\$ -	\$ -	\$ 3,355	\$ 3,355
Special assessments	14,535	30,604	2,310	-	47,449
Interest income	195	337	11	-	543
Total revenues	14,730	30,941	2,321	3,355	51,347
Expenditures					
Surrey Lake improvement	16,853	-	-	-	16,853
Lake 13 improvement	-	27,180	-	-	27,180
Bear Lake	-	-	4,820	-	4,820
Liquor law enforcement	-	-	-	3,355	3,355
Total expenditures	16,853	27,180	4,820	3,355	52,208
Net change in fund balance	(2,123)	3,761	(2,499)	-	(861)
Fund balance - beginning	27,829	38,140	2,499	-	68,468
Fund balance - ending	<u>\$ 25,706</u>	<u>\$ 41,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,607</u>



6018 Eastman Avenue
Midland, MI 48640
(989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

September 25, 2008

Management and the Board of Directors
Surrey Township
P.O. Box 647
Farwell, MI 48622

We have completed our audit of the financial statements of Surrey Township as of and for the year ended June 30, 2008 and have issued our report dated September 25, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Midland, Michigan
September 25, 2008

Appendix 1
Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated June 12, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix 2 Management Comments

In planning and performing our audit of the financial statements of Surrey Township as of and for the year ended June 30, 2008, we considered Surrey Township internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report date September 25, 2008, on the financial statements of Surrey Township. Our comments and recommendations regarding those matters are:

ADJUSTING JOURNAL ENTRIES

We proposed ten adjusting journal entries that you approved and posted to your general ledger. Substantially all of the entries were to correct bookkeeping errors resulting from misclassifying the journal entry to the correct account and other adjustments that should have been made prior to our arrival for the audit. We believe that a review and evaluation of transactions would expedite the year-end closing and reduce audit time.

EXENDITURES

A township can spend public money only for public purposes that are expressly authorized or implied by the Michigan Constitution and statutes. This is an area that has been highly debated around the State of Michigan. Several interpretations have been provided by the Michigan Departments of Treasury and Attorney General. In addition, the Department of Treasury has provided auditors with a list of illegal or unauthorized expenditures and require that they report these expenditures if they come to their attention during an audit.

The following are examples that have been identified in the Michigan Department of Treasury *Bulletin for Audits of Local Units of Government*.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road construction or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the city hall.

- During the audit we noted immaterial expenditures included in the above list. We recommend that township officials and management periodically review the listing of expenditures that the State of Michigan has determined are unallowable costs in order to prevent any recurrences.